

THE DOMINION POST, WEDNESDAY, 12 SEPTEMBER 2007

Fonterra's listing plan 'bold but tough'

By ANDREW JANES

Fonterra's push for a partial public listing is a bold move, industry commentators and its suppliers say.

Fonterra was down to just two options in its capital structure review - both of which would involve listing a sizeable minority stake in the company, an industry source said. Fonterra would not comment, but did not deny the report.

Chris Kelly, chief executive of state-owned Landcorp (a big Fonterra supplier), said most commentators would concede a partial listing was likely. "But to go from where they are now to that in one stage is quite bold. We are now entering a high-commodity-payout environment, which will make farmers more cautious".

"And I'm sure Fonterra will be mindful of the fact they lost the peak notes issue with shareholders three or four years ago, and they would not want a repeat of that. Providing shareholders were absolutely convinced that a partial listing would not necessarily mean conceding significant power, then I think they would have a better chance."

Dairy industry commentator Tony Baldwin agreed that going for a part listing would be tough with present high dairy prices.

He said there were several options Fonterra might be contemplating. These were:

- Having two types of shares – one class that was listed and tradeable and the other type that was not - with non-farmers having limits on their voting rights so that the non-listed holding retained control; and
- Having one class of share but having a majority of shares controlled by a share-owning cooperative that would vote collectively, meaning Fonterra's direction would still be driven by internal cooperative politics.

Of these options Mr Baldwin said the second was more likely. "It retains the appearance of a co-op at the centre of the structure. And in some respects it's less complicated, because with two classes of shares with different voting rights you end up having two different share valuations."

There were also several ways in which Fonterra could split off a part or parts of its business and list them. Splitting the value-added or branded part of the business and listing it separately with Fonterra maintaining a controlling stake was one option. Listing part of Fonterra, which had revenues of \$15.3 billion last season, would be a huge boon for the NZ Exchange. Fonterra chairman Henry van der Heyden sits on the NZX's board.

In its annual review of Fonterra's performance, issued yesterday, the Fonterra Shareholders Council said some farmers had raised the issue of Mr van der Heyden being on the NZX board as a potential conflict of interest. The council has raised the issue with the NZX but said it was satisfied that the correct legal process was being followed.

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